

# Report of the auditor-general to Eastern Cape Provincial Legislature and council on Makana Local Municipality

## Report on the audit of the financial statements

### Disclaimer of opinion

1. I was engaged to audit the financial statements of the Makana Local Municipality set out on pages xx to xx, which comprise statement of financial position as at 30 June 2024, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient audit evidence to provide a basis for an audit opinion on these financial statements.

### Basis for disclaimer of opinion

#### Receivables from exchange transactions

3. I was unable to obtain sufficient and appropriate audit evidence for receivables from exchange transactions and debt impairment and write off, as the amounts disclosed in the financial statements were not supported with underlying records. I was unable to confirm the balance of receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary relating to receivables from exchange transactions, stated at R93,4 million (2023: R74,9 million), debt impairment and write-off stated at R281,3 million (2023: R179 million) in the financial statements.

#### Receivables from non-exchange transactions

4. I was unable to obtain sufficient and appropriate audit evidence for receivables from non-exchange transactions, as the amounts disclosed in the financial statements were not supported with underlying records. I was unable to confirm the balance of receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary relating to receivables from non-exchange transactions, stated at R27,8 million (2023: R24,9 million) in the financial statements.

#### Inventories

5. I was unable to obtain sufficient and appropriate audit evidence for inventories, as the inventory on hand incorrectly comprised of actual purchases for water inventory due to the inadequate systems in place to maintain accounting records. I was unable to confirm the inventories by

alternative means. Consequently, I was unable to determine whether any adjustments were necessary to inventories, stated at R11,3 million in the financial statements.

#### **Investment Property**

6. During 2023, I was unable to obtain sufficient and appropriate audit evidence for investment property as the amounts disclosed were not supported by adequate underlying records. I was unable to confirm investment property by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the investment property, stated at R187,9 million. My audit opinion on the financial statements for the period ended 2023 was modified accordingly. My opinion on the current year financial statements is also modified due to the possible effects of this matter on the recorded amount of investment property in the current period of R187,7 million in the financial statements.

#### **Property Plant and Equipment**

7. I was unable to obtain sufficient and appropriate audit evidence for property, plant and equipment and depreciation and amortisation as the amounts disclosed in the financial statements did not agree with underlying records. I was unable to confirm property, plant and equipment and depreciation and amortisation by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to property, plant and equipment stated at R960,2 million (2023: R953,4 million) and depreciation and amortisation, stated at R49,3 million (2023: R32,5 million) in the financial statements.

#### **Heritage assets**

8. During 2023, I was unable to obtain sufficient and appropriate audit evidence for heritage assets as the amounts disclosed were not supported by adequate underlying records. I was unable to confirm heritage assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to heritage assets, stated at R32,8 million. My audit opinion on the financial statements for the period ended 2023 was modified accordingly. My opinion on the current year financial statements is also modified due to the possible effects of this matter on the recorded amount of heritage assets in the current period of R32,8 million in the financial statements.

#### **Payables from exchange transactions**

9. I was unable to obtain sufficient and appropriate audit evidence for payables from exchange transactions, as the amounts disclosed were not supported by adequate underlying records. I was unable to confirm the payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to payables from exchange transactions, stated at R285, 6 million (2023: R264, 7 million) in the financial statements.

#### **Payables from non-exchange transaction**

10. I was unable to obtain sufficient and appropriate audit evidence for payables from non-exchange transactions, as the amounts disclosed were not supported by adequate underlying records. I was unable to confirm the payables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to

payables from non-exchange transactions, stated at R35,7 million (2023: R37,5 million) in the financial statements.

#### Value added tax payable

11. I was unable to obtain sufficient and appropriate audit evidence for value added tax payable, as the amounts disclosed were not supported by adequate underlying records. In addition, the municipality did not account for value added tax in accordance with the requirements of *GRAP 1: Presentation of financial statements* as the municipality off-set the VAT control account against the VAT accrual account in order to determine the value added tax payable disclosed in the financial statements. I was unable to confirm the balance of value added tax payable by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to value added tax payable, stated at R58,6 million (2023: R46 million) in the financial statements.

#### Employee benefit obligation

12. I was unable to obtain sufficient and appropriate audit evidence for employee benefit obligation, as the estimates determined by the expert were based on incorrect data. In addition, I was unable to confirm whether the presentation and disclosures as required by *GRAP 25: Employee benefit* were made. I was unable to confirm the employee benefit obligations by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to employee benefit obligation stated at R81,4 million in the financial statements.

#### Provisions

13. I was unable to obtain sufficient and appropriate audit evidence for provisions, as the amounts disclosed were not supported by adequate underlying records. I was unable to confirm provisions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to provisions, stated at R60, 5 million (2023: R52, 7 million) in the financial statements.

#### Revenue from exchange transactions

14. I was unable to obtain sufficient and appropriate audit evidence for revenue from exchange transactions, as the amount disclosed was not supported by adequate underlying records. In addition, the municipality did not have adequate systems in place to maintain accounting records pertaining to service charges. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to revenue from exchange transactions, stated at R487,5 million (2023: R401,9 million) in the financial statements.

#### Revenue from non-exchange transactions

15. I was unable to obtain sufficient and appropriate audit evidence for revenue from non-exchange transactions, as the amount disclosed in the financial statement did not agree to the underlying records. In addition, the municipality did not account and disclose all its debt forgiven in accordance with the requirements of *GRAP 23: Revenue from non-exchange transactions*. I was unable to confirm the revenue from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were

necessary to revenue from non-exchange transactions, stated at R336,2 million (2023: R269,1 million) in the financial statements.

#### **Employee related cost**

16. I was unable to obtain sufficient and appropriate evidence for employee related costs due to a lack of adequate systems and processes for records management. I was unable to confirm employee related costs by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to employee related costs of R223 million (2023: R189,9 million) in the financial statements.

#### **Finance cost**

17. I was unable to obtain sufficient and appropriate evidence for finance costs due to a lack of adequate systems and processes for records management. I was unable to confirm finance costs by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to finance costs of R34,8 million (2023: R30,9 million) in the financial statements.

#### **Bulk purchases**

18. I was unable to obtain sufficient and appropriate evidence for bulk purchases due to a lack of adequate systems in place to maintain accounting records. I was unable to confirm bulk purchases by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to bulk purchases of R160,8 million (2023: R135,6 million) in the financial statements.

#### **Contracted services**

19. I was unable to obtain sufficient and appropriate evidence for contracted services due to lack of adequate systems and processes for records management. I was unable to confirm contracted services by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contracted services of R34,8 million (2023: R31,2 million) in the financial statements.

#### **Operational expenditure**

20. I was unable to obtain sufficient and appropriate evidence for operational expenditure due to lack of adequate systems and processes for records management. I was unable to confirm operational expenditure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to operational expenditure of R40,9 million (2023: R41,3 million) in the financial statements.

#### **Statement of changes in net assets**

21. I was unable to obtain sufficient and appropriate audit evidence regarding the statement of changes in net assets as disclosed in the financial statements, as the disclosure presented in the financial statements for auditing purposes was not based on accurate and complete underlying accounting records. I was unable to audit the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the

statement of changes in net assets. I was unable to determine the impact on the financial statements, as it was impracticable to do so.

#### **Cash Flow Statement**

22. I was unable to obtain sufficient and appropriate audit evidence for cash flow statement due to multiple errors in determining cash flow statement. I was unable to determine the full extent of the errors in the cash flow statement, as it was impracticable to do so. I was unable to audit the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the cash flow statement.

#### **Statement of comparison of budget and actual amounts and appropriation statement**

23. I was unable to obtain sufficient and appropriate audit evidence regarding the statement of budget and actual and appropriation statement as disclosed in the financial statements, as the disclosure presented in the financial statements was not based on accurate and complete underlying accounting records. I was unable to audit the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the statements amounts. I was unable to determine the impact on the financial statement, as it was impracticable to do so.

#### **Distribution losses**

24. I was unable to obtain sufficient and appropriate audit evidence regarding the bulk electricity and water losses as disclosed in the financial statements, as the disclosure was not based on accurate and complete underlying accounting records. I was unable to audit the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the bulk electricity and water losses. I was unable to determine the impact on the disclosure note for the current and prior year, as it was impracticable to do so.

#### **Financial instruments and risk management**

25. I was unable to obtain sufficient and appropriate audit evidence regarding the financial instruments and risk management disclosed in notes 50 and 55 to the financial statements, as the disclosure presented in the financial statements for auditing purposes was not based on accurate and complete underlying accounting records. I was unable to audit the disclosure in the financial statements by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to financial instruments and risk management disclosed in notes 50 and 55 to the financial statements.

#### **Contingencies**

26. I was unable to obtain sufficient and appropriate audit evidence for contingent liabilities as the amount disclosed were not supported by adequate underlying records. I was unable to confirm contingencies by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contingencies, stated at R114,7 million (2023: R47,2 million).

## Related parties

27. I was unable to obtain sufficient appropriate audit evidence regarding the related parties disclosed in note 53 to the financial statements, as the disclosure made was not accurate and complete. In addition, the presentation and disclosures made were not in accordance with the requirements of *GRAP 20: Related party disclosure*. I was unable to confirm related parties by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to related parties. I was unable to determine the impact on related parties as it was impracticable to do so.

## Prior year adjustments

28. The municipality did not prepare, present and disclose the disclosure note for the prior year adjustments in accordance with the requirements of *GRAP 3: Accounting policies, changes in accounting estimates and errors*. The prior year adjustments disclosed were not supported by adequate underlying records and did not adhere to the requirements of *GRAP 3*. The municipality did not correct prior year misstatements by addressing the root causes that led to the significant deficiencies that were reported in the prior years and did not take active steps and measures to prevent the re-occurrence of the misstatements. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the prior year adjustments disclosed in note 54 of the financial statements.

## Unauthorised expenditure

29. I was unable to obtain sufficient and appropriate audit evidence to confirm the unauthorised expenditure disclosed in note 58 to the financial statements, as the disclosure did not include particulars of unauthorised expenditure incurred in the current year as required by section 125(2)(d) of the MFMA. I have not included the omitted information relating to the current and previous financial years in this audit report, as it was impracticable to do so. I was unable to audit the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to unauthorised expenditure, stated at R558,9 million (2023: R558,9 million) in the financial statements.

## Fruitless and wasteful expenditure

30. I was unable to obtain sufficient and appropriate audit evidence for fruitless and wasteful expenditure included in note 59 to the financial statements as the amount disclosed was not based on accurate and complete underlying records. I was unable to audit the disclosure in the financial statements by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to fruitless and wasteful expenditure, stated at R20,8 million (2023: R17,2 million) in the financial statements.

## Irregular expenditure

31. I was unable to obtain sufficient and appropriate audit evidence for irregular expenditure included in note 60 to the financial statements as the amount disclosed was not based on accurate and complete underlying records. I was unable to audit the disclosure in the financial statements by alternative means. Consequently, I was unable to determine whether any

adjustments were necessary to irregular expenditure, stated at R359, 2 million (2023: R396 million) in the financial statements.

#### Additional disclosures in terms of MFMA

32. I was unable to obtain sufficient and appropriate audit evidence regarding the additional disclosures in terms of the MFMA as disclosed in note 61 to the financial statements as the disclosures were not based on accurate and complete underlying accounting records. I was unable to audit the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the additional disclosures in terms of the MFMA. I was unable to determine the impact on the disclosure note for the current and prior year, as it was impracticable to do so.

#### Segment reporting

33. I was unable to obtain sufficient appropriate audit evidence for segment reporting as the item was not disclosed on the financial statements as required by *GRAP 18: Segment reporting* but added as an annexure to the financial statements. I was unable to audit the disclosure in the financial statements by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to segment reporting. I was unable to determine the impact on segment reporting for the current and prior year, as it was impracticable to do so.

#### Principal agent relationship

34. I was unable to obtain sufficient and appropriate audit evidence for principal agent relationship as the item was not disclosed on the financial statements as required by *GRAP 109: Accounting by principals and agents*. I was unable to audit the disclosure in the financial statements by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the financial statements.

#### Corresponding figures

#### Unspent conditional grants

35. During 2023, I was unable to obtain sufficient appropriate audit evidence for unspent conditional grants, as the amounts disclosed in the financial statements did not agree with the underlying records. I was unable to confirm the unspent conditional grants by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to unspent conditional grants stated at R20,4 million in the financial statements.

#### Inventory consumed

36. During 2023, I was unable to obtain sufficient appropriate evidence for inventory consumed due to lack of adequate systems and controls to account for consumption of inventory, as a result, the amounts recorded and disclosed in the financial statements could not be substantiated. I was unable to confirm inventory consumed by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to inventory consumed of R27,6 million in the financial statements.

## **Material uncertainty relating to going concern**

37. I draw attention to the matter below. My opinion is not modified in respect on this matter.
38. I draw attention to note 56 to the financial statements, which indicates that the municipality is currently faced with numerous financial problems, which impacts amongst others, on its ability to meet its financial commitments and provision of sustainable basic services. As stated in note 56, these events or conditions, indicate that a material uncertainty exists may cast significant doubt on the municipality's ability to continue as a going concern.

## **Other matter**

39. I draw attention to the matter below. My opinion is not modified in respect of this matter.
40. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

## **Responsibilities of the accounting officer for the financial statements**

41. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the MFMA; and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
42. In preparing the financial statements, the accounting is responsible for assessing the municipality's ability to continue as a going concern; disclosing, as applicable, matters relating to going concern; and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations or has no realistic alternative but to do so.

## **Responsibilities of the auditor-general for the audit of the financial statements**

43. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
44. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## **Report on the annual performance report**

45. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported

performance information against predetermined objectives for the selected material performance indicators presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

46. I selected the following material performance indicators related to KPA 1: Basic service delivery and infrastructure development presented in the annual performance report for the year ended 30 June 2024. I selected those indicators that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

- Replacement of ageing asbestos pipes in Phase 3A (Makhanda)
- Replacement of ageing asbestos pipes in Phase 3B (Makhanda)
- Refurbishment of Waainek W T Works cathodic protection
- Refurbishment of Belmont Valley Wastewater Treatment Works
- Percentage of surfaced municipal road lanes which has been resurfaced using paving
- Percentage of surfaced municipal road lanes which has been resurfaced and resealed
- Construction of 178 outstanding RDP houses
- Percentage of oval stadium, lavender valley refurbishment completed
- Number of high masts repaired

47. I evaluated the reported performance information for the selected material performance indicators against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.

48. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives.
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included.
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements.
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated.
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents.
- the reported performance information presented in the annual performance report in the prescribed manner.
- there is adequate supporting evidence for the achievements reported and for the reasons provided for any measures taken to improve performance.

49. I performed the procedures to report material findings only; and not to express an assurance opinion or conclusion.
50. The material findings on the reported performance information for the selected material indicators are as follows:

#### Refurbishment of Waainek W T Works cathodic protection

51. An achievement of 90% was reported against a target of 100%. I could not determine if the reported achievement was correct, as the indicator was not well defined, and I could not verify the methods and processes used to measure the achievement. I was unable to confirm the indicator by alternative means. Consequently, the reported achievement might be more or less than reported and was not reliable for determining if the target has been achieved.

#### Refurbishment of Belmont Valley Wastewater Treatment Works

52. An achievement of 73% was reported against a target of 100%. I could not determine if the reported achievement was correct, as the indicator was not well defined, and I could not verify the methods and processes used to measure the achievement. I was unable to confirm the indicator by alternative means. Consequently, the reported achievement might be more or less than reported and was not reliable for determining if the target has been achieved.

#### Percentage of oval stadium, lavender valley refurbishment completed

53. An achievement of 44% was reported against a target of 100%. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. I was unable to confirm the indicator by alternative means. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

#### Other matters

54. I draw attention to the matters below.

#### Achievement of planned targets

55. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.
56. The table that follows provides information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages xx to xx.

#### KPA 1: Basic service delivery and infrastructure development

*Targets achieved: 0%*

*Budget spent: 98%*

Key service delivery indicator not achieved	Planned target	Reported achievement
Replacement of ageing asbestos pipes in Phase 3A (Makhanda)	100%	63%
Replacement of ageing asbestos pipes in Phase 3B (Makhanda)	100%	93%
Refurbishment of Waainek W T Works cathodic protection	100%	90%
Refurbishment of Belmont Valley Wastewater Treatment Works	100%	73%
Percentage of surfaced municipal road lanes which has been resurfaced using paving	100%	86%
Percentage of surfaced municipal road lanes which has been resurfaced and resealed	60%	0%
Construction of 178 outstanding RDP houses	178 RDP houses	0
Percentage of oval stadium, lavender valley refurbishment completed	100%	44%
Number of High masts repaired	4	0

### Material misstatements

57. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for KPA1: Basic service delivery and infrastructure development. Management did not correct all of the misstatements, and I reported material findings in this regard.

### Report on compliance with legislation

58. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.
59. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
60. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.

61. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

#### Annual financial statements and annual reports

62. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer of opinion.

#### Revenue management

63. An adequate management, accounting and information system which accounts for revenue, debtors and receipt of revenue was not in place, as required by section 64(2)(e) of the MFMA.
64. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
65. I was unable to obtain sufficient appropriate audit evidence that revenue due to the municipality was calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
66. I was unable to obtain sufficient appropriate audit evidence to confirm that accounts for municipal tax and charges for municipal services / service charges were prepared on a monthly basis as required by section 64(2)(c) of the MFMA.
67. I was unable to obtain sufficient appropriate audit evidence to confirm that interest had been charged on all accounts in arrears, as required by section 64(2) (g) of the MFMA.

#### Expenditure management

68. Money owed by the municipality was not always paid within 30 days/ an agreed period, as required by section 65(2)(e) of the MFMA.
69. An adequate management, accounting and information system was not in place which accounted for creditors and accounted for payments made, as required by section 65(2)(b) of the MFMA.
70. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified, as indicated in the basis for disclaimer of opinion paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain management (SCM) regulations.
71. Reasonable steps were not taken to prevent fruitless and wasteful expenditure as required by section 62(1)(d) of the MFMA. The full extent of the fruitless and wasteful expenditure could not be quantified, as indicated in the basis for disclaimer of opinion paragraph. The majority of the disclosed fruitless and wasteful expenditure was caused by interest incurred on long overdue accounts.

72. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified as indicated in the disclaimer of opinion paragraph.

#### **Human resource management**

73. Financial interests were not disclosed by the senior managers within 60 days from date of appointment, as required by regulation 36(1)(a) on appointment and conditions of employment of senior managers.
74. Job descriptions were not established for all posts in which appointments were made, as required by section 66(1)(b) of the Municipal Systems Act (MSA) and regulation 7(1) of Municipal Staff Regulations.
75. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA and regulation 31 of Municipal Staff Regulations.

#### **Asset management**

76. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
77. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

#### **Strategic planning and performance management**

78. No key performance indicators (KPIs) were set in respect of the provision of basic electricity, as required by section 43(2) of the MSA and municipal planning and performance management regulation 10(a).
79. The performance management system and related controls were inadequate as the described processes of performance measurement and reporting were not conducted as intended as required by municipal planning and performance management regulation 7(1).

#### **Consequence management**

80. The unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
81. Some of the irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
82. Some of the fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

## Procurement and contract management

- 83. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements as some of the competitive bids were not submitted.
- 84. Some of the goods and services within the prescribed transaction value for competitive bids were procured without inviting competitive bids, as required by SCM Regulation 19(a).
- 85. Some of the contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM Regulation 29(5)(b).
- 86. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service (SARS) to be in order, in contravention of SCM Regulation 43.
- 87. The preference point system was not applied to some of the procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.
- 88. Some of the contracts were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of section 2(1)(a) of the Preferential Procurement Policy Framework Act and its regulations.
- 89. Some of the contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and 2022 Preferential Procurement Regulation 4(4) and 5(4).
- 90. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
- 91. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(iii) of the MFMA.

## Utilisation of conditional grants

- 92. Performance in respect of programmes funded by the Water Services Infrastructure Grant (WSIG) was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Dora) 5 of 2023.

<h2>Other information in the annual report</h2>
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- 93. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported on in this auditor's report.
- 94. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.

95. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
96. As a result of the disclaimer of opinion expressed on the financial statements, I do not conclude on material misstatements of the other information relating to the financial statements. If, based on the work I have performed relating to the audit of performance information and compliance with legislation, I conclude that there is a material misstatement of this other information, I am required to report that fact.

#### Internal control deficiencies

97. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
98. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion, the findings on the selected material indicators included in the annual performance report, and the material findings on compliance with legislation included in this report.
99. Leadership did not effectively fulfil its oversight responsibilities on the implementation and monitoring of internal controls and compliance with laws and regulations. The audit action plan was not effectively monitored and implemented to ensure that the prior year audit findings and instances of material non-compliance were addressed and prevented.
100. Management did not design and implement daily and monthly controls to ensure the financial statement and annual performance reports were supported by accurate and complete underlying records. Management further did not prepare relevant, accurate and complete information to support financial and performance reporting.
101. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. Consequently, the financial statements, performance report, and compliance contained material audit findings.

#### Material irregularities

102. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities (MIs) identified during the audit and on the status of material irregularities as previously reported in the auditor's report.

## Status of previously reported material irregularities

### Full and proper records not kept

103. Reasonable steps were not taken in the 2019-20 financial year to ensure that full and proper records were kept for property plant and equipment, distribution losses, revenue from exchange transactions, all the performance indicators included in the basic service delivery and infrastructure development, as required by- section 62(1)(b) of the MFMA. Furthermore, the municipality disclosed a material uncertainty relating to its ability to continue as a going concern. The non-compliance contributed to a disclaimer of audit opinion, as I could not obtain sufficient appropriate audit evidence to support the amounts and disclosures in the financial statements.
104. The lack of full and proper is likely to result in substantial harm to the municipality, as it contributed to the material uncertainty regarding its ability to continue operations. This, in turn, is likely to have a negative impact on the municipality's ability to discharge its service delivery mandate.
105. The accounting officer was notified of the material irregularity on 11 June 2021 and progress in the implementation of the planned actions as previously reported was requested from the accounting officer on 27 October 2023 and 11 October 2024, the accounting officer reflected on the following actions that have been fully implemented.
- An intervention in line with section 139(2) of the MFMA was implemented through the Mandatory Financial Recovery Plan (MFRP) approved on 11 February 2022 by the minister of executive council (MEC) of finance
  - Only investigations relating to unauthorised, irregular and fruitless and wasteful expenditure (UIFW) were conducted through Municipal Public Accounts Committee (MPAC) with the assistance of internal audit from 2020-21 and reported on 27 June 2023. The council wrote off some amounts as irrecoverable with some still under investigation.
  - There is now stability in leadership positions as the municipal manager and the chief financial officer were employed on 1 November 2022 and 1 July 2022 respectively. Both these positions were capacitated for the whole financial year and are permanent positions. Appointments for director: local economic development and director: public safety and community services were made on 1 December 2023.
106. The implementation of the following actions was still in progress as year-end
- The Financial Recovery Plan (FRP) was prepared and implemented in February 2022. However, slow progress has been made as the municipality is still in phase one-rescue phase. The MEC of Finance is driving the implementation of the FRP. Engagements to monitor progress on the implementation were held on nine occasions in the current financial year.
  - An action plan to address the lack of full and proper records is under implementation. The municipality reviewed and approved the standardised file plan and the records management policy on 12 December 2022 and 30 June 2023 respectively. The municipality

is getting assistance from the Provincial Treasury on the implementation of this plan which is currently in progress.

107. Based on my evaluation of the information and evidence provided, the steps taken by the accounting officer and the intervention of MEC Finance are appropriate and the material irregularity is resolved.

### **Material irregularities in progress**

108. I identified other material irregularities during the audit and notified the accounting officer, as required by the material irregularity regulation 3(2). By the date of this auditor's report, I had not yet completed the process of evaluating the response from the accounting officer on one of the material irregularities, while the response of the accounting officer was not yet due for the other material irregularity.

### **Other reports**

109. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
110. The Special Investigations Unit (SIU) is investigating the maladministration in the municipality's procurement processes, including contracts for water, electricity and waste management.
111. At the date of this report, the investigation was still in progress.

*Auditor-General*

East London

30 November 2024



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

### Auditor-general's responsibility for the audit

#### Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected material performance indicators and on the municipality's compliance with selected requirements in key legislation.

#### Financial statements

In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

## Communication with those charged with governance

I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

## Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Compliance theme	Sections or regulations
Municipal Finance Management Act 56 of 2003	Revenue management	Section 64(2)(b) Section 64(2)(c) Section 64(2)(e) Section 64(2)(f) Section 64(2)(g)
	AFS, APR and Annual report	Section 122(1) Section 122(2) Section 126(1)(a) Section 126(1)(b) Section 127(2) Section 127(5)(a)(i) Section 127(5)(a)(ii) Section 129(1) Section 129(3) Section 133(1)(a) Section 133(1)(c)(i) Section 133(1)(c)(ii)
	Expenditure management	Section 11(1) Section 15 Section 28(1) Section 29(1) Section 29(2)(b) Section 62(1)(d) Section 65(2)(a) Section 65(2)(b) Section 65(2)(e)
	Asset management	Section 13(2) Section 14(1) Section 14(2)(a) Section 14(2)(b) Section 63(2)(a) Section 63(2)(c)
	Strategic planning	Section 1 - Definition: service delivery and budget implementation plan,

Legislation	Compliance theme	Sections or regulations
		Section 24(2)(c)(iv) Section 53(1)(c)(ii) Section 54(1)(c) Section 72(1)(a)(ii)
	Consequence management	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure Section 32(2) Section 32(2)(a) Section 32(2)(a)(i) Section 32(2)(a)(ii) Section 32(2)(b) Section 32(6)(a) Section 32(7) Section 170 Section 171(4)(a) Section 171(4)(b)
	Environmental management	Section 63(1)(a)
	SCM	Section 112(1)(j) Section 116(2)(b) Section 116(2)(c)(ii) Section 117
MFMA: Municipal Budget and Reporting Regulations, 2009	Expenditure management	Regulation 71(1)(a) Regulation 71(1)(b) Regulation 71(2)(a) Regulation 71(2)(b) Regulation 71(2)(d) Regulation 72(a) Regulation 72(b) Regulation 72(c)
MFMA: Municipal Investment Regulations, 2005	Asset management	Regulation 3(1)(a) Regulation 3(3) Regulation 6 Regulation 7 Regulation 12(2) Regulation 12(3)
MFMA: Municipal Regulations on Financial Misconduct	Consequence management	Regulation 5(4) Regulation 6(8)(a)

Legislation	Compliance theme	Sections or regulations
Procedures and Criminal Proceedings, 2014		Regulation 6(8)(b) Regulation 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	SCM	Regulation 5 Regulation 12(1)(c) Regulation 12(3) Regulation 13(b) Regulation 13(c) Regulation 16(a) Regulation 17(1)(a) Regulation 17(1)(b) Regulation 17(1)(c) Regulation 19(a) Regulation 21(b) Regulation 22(1)(b)(i) Regulation 22(2) Regulation 27(2)(a) Regulation 27(2)(e) Regulation 28(1)(a)(i) Regulation 29(1)(a) Regulation 29(1)(b) Regulation 29(5)(a)(ii) Regulation 29(5)(b)(ii) Regulation 32 Regulation 36(1) Regulation 36(1)(a) Regulation 38(1) (c) Regulation 38(1)(d)(ii) Regulation 38(1)(e) Regulation 38(1)(g)(i) Regulation 38(1)(g)(ii) Regulation 38(1)(g)(iii) Regulation 43 Regulation 44 Regulation 46(2)(e) Regulation 46(2)(f)
Municipal Systems Act 32 of 2000	Revenue management	Section 74(1) Section 96(b)
	Strategic planning	Section 25(1)

Legislation	Compliance theme	Sections or regulations
		Section 26(a) Section 26(c) Section 26(h) Section 26(i) Section 29(1)(b)(ii) Section 29(3)(b) Section 34(a) Section 34(b) Section 38(a) Section 41(1)(a) Section 41(1)(b) Section 41(1)(c)(ii) Section 42 Section 43(2)  Parent municipality with ME: Section 93B(a) Section 93B(b)  Parent municipality with shared control of ME: Section 93C(a)(iv) Section 93C(a)(v)
	HR management	Section 56(a) Section 57(2)(a) Section 57(4B) Section 57(6)(a) Section 66(1)(a) Section 66(1)(b) Section 67(1)(d)
MSA: Municipal Planning and performance Management Regulations, 2001	Strategic planning	Regulation 2(1)(e) Regulation 2(3)(a) Regulation 3(3) Regulation 3(4)(b) Regulation 3(6)(a) Regulation 7(1) Regulation 8 Regulation 9(1)(a) Regulation 10(a)

Legislation	Compliance theme	Sections or regulations
		Regulation 12(1) Regulation 15(1)(a)(i) Regulation 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	HR management	Regulation 2(3)(a) Regulation 4(4)(b) Regulation 8(1) Regulation 8(2) Regulation 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	HR management	Regulation 17(2) Regulation 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Consequence management	Regulation 5(2) Regulation 5(3) Regulation 5(6) Regulation 8(4)
Annual Division of Revenue Act	Conditional grants	Section 11(6)(b) Section 12(5) Section 16(1) Section 16(3)
Construction Industry Development Board Act 38 of 2000	SCM	Section 18(1)
Construction Industry Development Board Regulations	SCM	Regulation 17 Regulation 25 (7A)
Municipal Property Rates Act 6 of 2004	Revenue management	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	SCM	Section 2(1)(a) Section 2(1)(f)
Preferential Procurement Regulations, 2017	SCM	Regulation 4(1) Regulation 4(2) Regulation 5(1) Regulation 5(3) Regulation 5(6) Regulation 5(7) Regulation 6(1) Regulation 6(2)

Legislation	Compliance theme	Sections or regulations
		Regulation 6(3) Regulation 6(6) Regulation 6(8) Regulation 7(1) Regulation 7(2) Regulation 7(3) Regulation 7(6) Regulation 7(8) Regulation 8(2) Regulation 8(5) Regulation 9(1) Regulation 10(1) Regulation 10(2) Regulation 11(1) Regulation 11(2)
Preferential Procurement Regulations, 2022	SCM	Regulation 4(1) Regulation 4(2) Regulation 4(3) Regulation 4(4) Regulation 5(1) Regulation 5(2) Regulation 5(3) Regulation 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Consequence management	Section 34(1)
Municipal Staf Regulations	Human Resource Management	Regulation 7(1) Regulation 31